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16 November 1971

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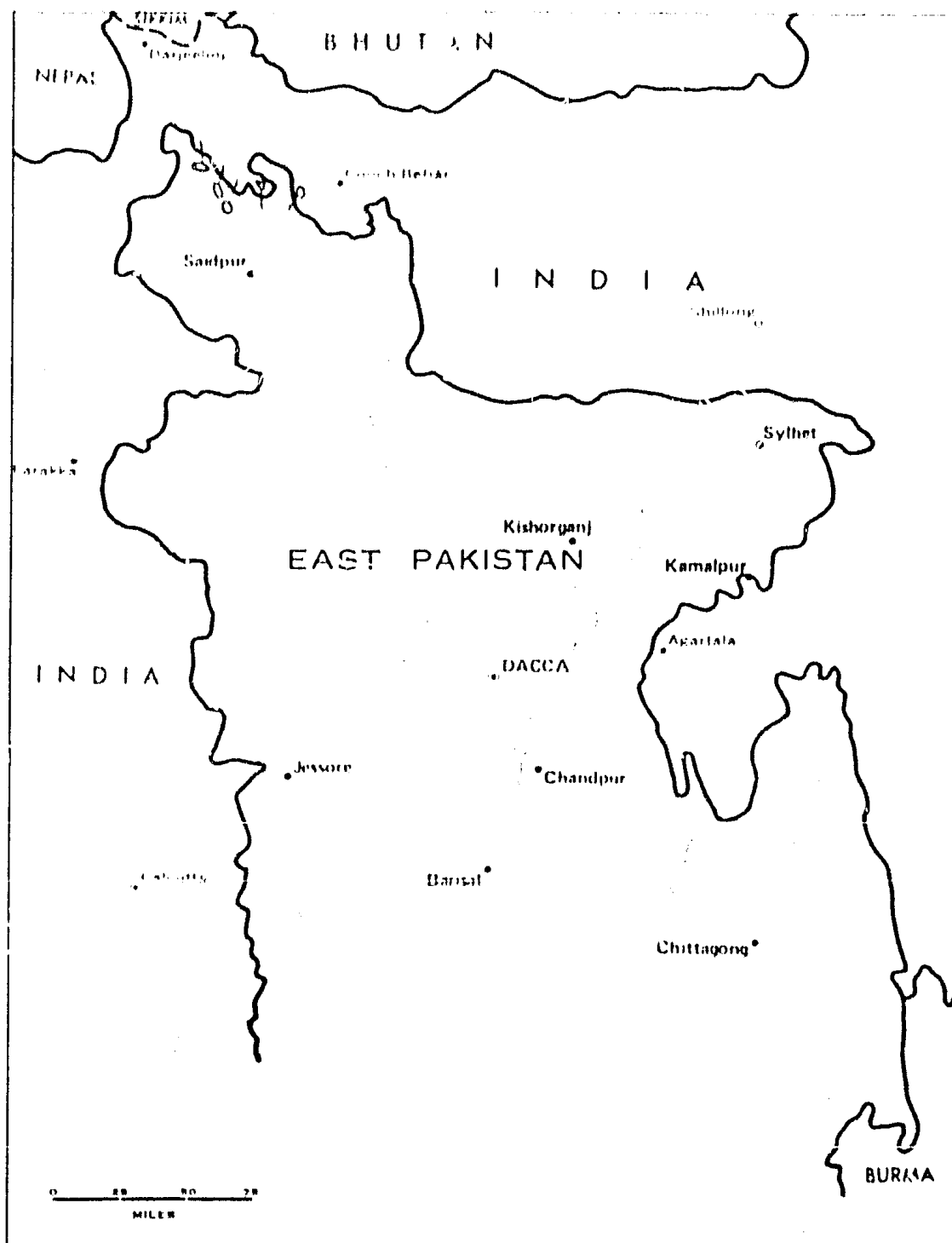
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PAKISTAN: The Mukti Bahini is expanding its area of operation throughout the eastern wing as fighting intensifies.

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[REDACTED] have enabled the guerrillas to establish several camps inside the southern border of Sylhet District. The guerrillas also hold territory along the northern border of the district and are expanding their activities into the interior.

Terrorist attacks have increased in Dacca city where two West German diplomats and four Pakistanis were killed in an explosion and a burst of gunfire on Sunday.

Mukti Bahini strength is also growing in Chittagong District where one group of 800 guerrillas is reportedly well equipped with radios and automatic weapons. In Comilla District travelers report that guerrillas run the local government in at least five administrative units, and continuing incidents of heavy fighting are reported from the border areas. In Mymensingh District two local government officials were assassinated for collaboration with the army earlier this month. (SECRET)

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NORTH VIETNAM: Hanoi's propaganda is interpreting the announcement of further American troop withdrawals as indicative of a continuing tough US stand on the war.

Initial reaction from the North Vietnamese suggested that they may have expected the President to announce some changes in US policy. Instead, according to Hanoi's official commentary, the President failed to offer any "decisive change...at all." The Communists charged that the US plans to continue its Vietnamization program, its support of the Thieu government, and the use of US air power in Indochina "indefinitely."

The commentary picked up the factors that the President said would enter into US decisions in the coming months on additional troop withdrawals and a reduction in US air operations, and it implied that the US could not expect the Communists to agree to any restraint on the level of their military operations in South Vietnam in exchange for a further reduction of the US military effort. As usual, the propaganda pledged the Communists to a continued war effort in South Vietnam but did not suggest that Hanoi planned any particular step-up in military action in response to the President's announcement.

Hanoi emphasized that the Vietnamese Communists' seven-point proposal remains the cornerstone of their demands for a negotiated settlement. Its commentary called on the US to respond to the seven points and, in an apparent reference to the President's plans to visit Peking and Moscow, charged that the US planned to carry out the "dirty trick" of conducting "diplomatic activities" through other channels aside from Paris.

The propaganda reiterated the Communist contention that the US must agree to points one and two before a negotiated settlement is possible.

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These terms require a complete withdrawal of all US and allied military personnel and materiel from Vietnam and an end to US military aid and political "backing" for Thieu so that a regime including the Communists can be established.

There was no hint in the Communists' reaction that they plan to make any concession on the matter of US prisoners of war. In fact the propaganda left the impression that they believe US prisoners may become even more important as a negotiating card in any future arrangement on ending the US role in Vietnam. The commentary noted that the number of US prisoners is growing because of the continued fighting by US forces in Vietnam. (CONFIDENTIAL)

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CAMBODIA: The government appears to be abandoning its effort to reopen Route 6, but it will try to maintain its current position along the road.

Following a meeting with his field commanders, Prime Minister Lon Nol ordered the forces along Route 6 to reorganize and consolidate their positions along the portions of the highway that the government still controls. The Chenla II task force will now be divided into two separate operational commands--Chenla-north, which will hold and defend the towns of Baray and Kompong Thmar, and Chenla-south, which will be responsible for the security of Tang Kouk and Skoun. There now are approximately 10,000 troops under each command. The primary mission of the commands is defensive, but the units have been authorized to engage in offensive operations if feasible.

In opting for this course, Lon Nol is trying to salvage as much as possible from the Chenla II operation, which had more than achieved its initial objectives until the Communists launched a counter-offensive in late October. Lon Nol evidently rejected proposals that the entire operation be abandoned or that South Vietnamese troops be requested to open Route 6.

The division of the Chenla II forces will increase their vulnerability, particularly the troops in the northern command who will be dependent on aerial resupply. It is not clear, however, whether the Communists, who probably have taken heavy losses, are in a position to take early advantage of the more favorable tactical situation. The government apparently has also suffered heavy casualties, although the magnitude of its losses is not yet clear. The US defense attaché, who visited the area yesterday, estimates that the Cambodians may have lost the equivalent of four to six battalions in the past three weeks. This figure may be revised downward, however, as more complete reports

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become available and many soldiers now believed missing return to other government units. The withdrawal this weekend from the Rumlong area appears to have been particularly costly; one battalion left behind 40 wounded as well as two 105-mm. howitzers, mortars, and radios.

In the Phnom Penh area, the Communists are still maintaining pressure against government positions west of Pochentong Airfield. Enemy elements reportedly surrounded part of an army battalion located about seven miles west of Pochentong on 14 November while simultaneously hitting several nearby outposts. Further south, delayed reports indicate that government forces sweeping an area about 12 miles southwest of the airfield have suffered 20 killed and 90 wounded in sharp fighting in the past few days. (SECRET NO FOREIGN DISSEM)

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SOUTH VIETNAM: The economic reforms, announced yesterday by Saigon, will add to short-term price pressures but will pave the way for more rapid economic development.

After an increase of only eight percent since the start of the year, prices rose sharply last week just prior to the enactment of a major economic reform package by the Thieu government. Speculation that caused people to turn in piasters for rice, gold, or dollars was spurred by rumors of the upcoming devaluation and fears of reduced US economic assistance. Prices were further aggravated by the current low level of government rice stocks, which are not sufficient to withstand a major wave of speculation and hoarding.

Embassy officials estimate the impact of the economic reforms on prices will initially boost the cost of living an additional five to ten percent. The unstable situation into which the reforms were injected, however, could produce much greater price increases.

Although well aware that the reforms would result in some price increases in the short run, Saigon went ahead to stave off further speculation and provide various changes vital to economic growth. The reforms include a large devaluation of the piaster, simplification and reduction of import taxes, and a wage increase for the armed forces and the civil service. Proposals for reform of domestic taxes, which probably will be contentious, will be submitted to the legislature. The Vietnamese hope to create a more favorable climate for investment, boost exports, and increase government revenues.

The devaluation will bring the piaster more in line with its current black market value and provide a means for flexible exchange adjustment in the future. Initially, the new exchange rates will range from 275 to 410 piasters per dollar compared with current range of 118 to 275. (SECRET)

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NATO: The allies have made progress in their preparations for a conference on European security and cooperation but differences remain regarding both substance and procedures.

The allied political advisers have drafted a report in preparation for the meetings of the NATO ministers in December. The report--to be considered by the permanent representatives on 24 November--reflects allied agreement that after the Berlin accord has been achieved, East-West preparations for a conference should be lengthy and thorough and should cover substantive issues as well as the agenda and procedures for a high-level meeting. The allies also agree that they should keep open the option of halting these preparations if Moscow balks at dealing with questions of interest to the West.

The NATO members remain split, however, on how hard they should push the Soviets on principles governing relations between states--a conference agenda item to be proposed by the allies. The intent of an East-West agreement on such principles would be to impose political constraints on Soviet actions in Eastern Europe. Although some allies believe that such an agreement may be the only "security" accomplishment of a conference, the Scandinavians and others do not want to risk a confrontation with Moscow on the issue.

The allies are also divided on how to move from a Berlin agreement to a conference. The French, with some support, continue to argue that preconference preparations--though thorough enough to determine Soviet intentions--should not necessarily produce agreement on all substantive points, as the US and others have suggested. In the French plan, an initial ministerial meeting would discuss issues, working groups would then develop texts, and the ministers eventually would reconvene to sign the accords. Bonn is promoting a compromise, which essentially would substitute a lower-level meeting for France's first ministerial session. (continued)

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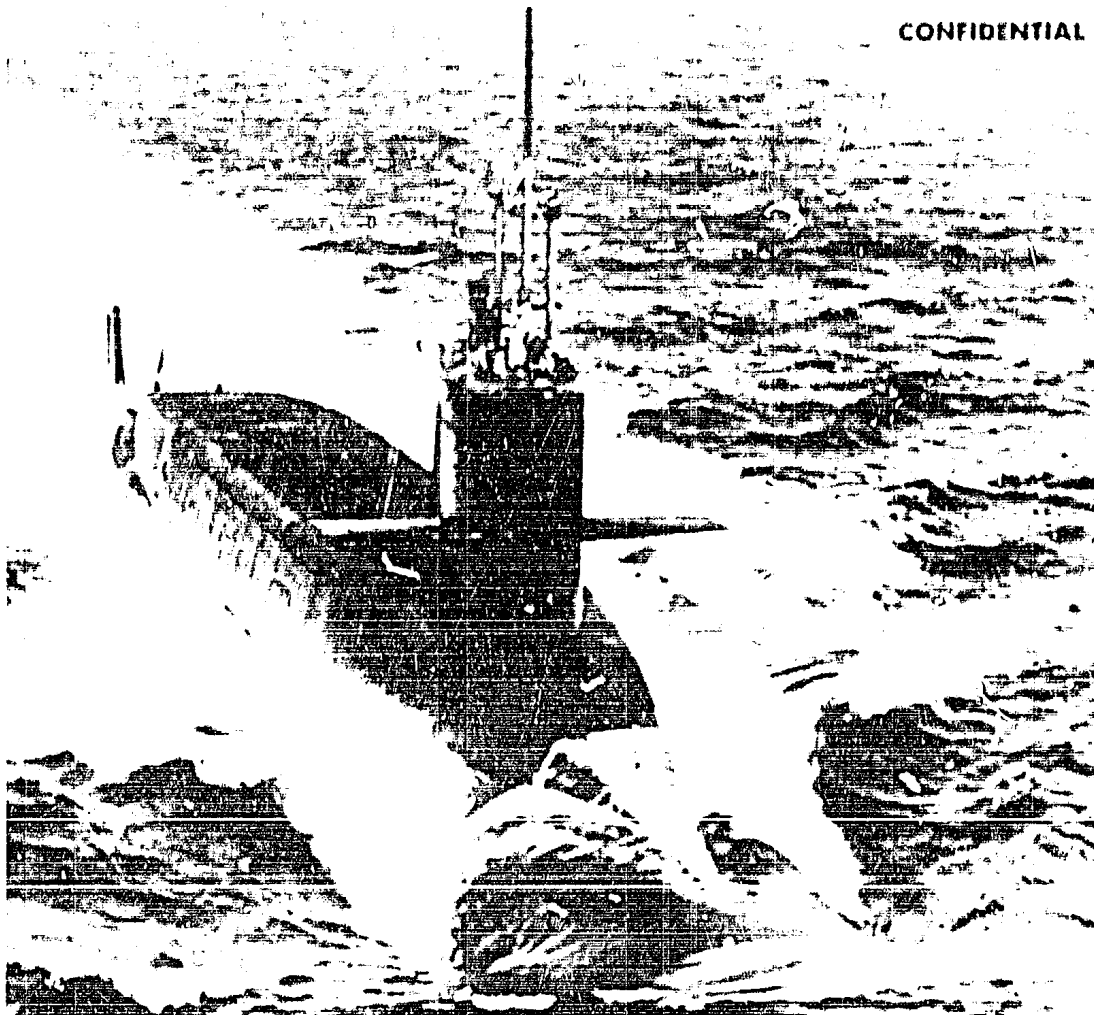
The allies also disagree about whether the findings of NATO studies should be binding on the allied participants at the conference. Paris has insisted that the discussions in NATO are only "illustrative." Bonn, however, disagrees strongly, and in December Foreign Minister Scheel reportedly will try to get allied agreement that NATO's studies are intended to develop common Western negotiating positions.
(SECRET NO FOREIGN DISSEM)

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First French Nuclear-Powered Ballistic Missile Submarine

CONFIDENTIAL



Displacement	7,900 tons surfaced; 9,000 tons submerged
Length	420 feet
Beam	34.8 feet
Missiles	16 tubes amidships
Torpedo tubes	4
Nuclear reactors	1 pressurized water-cooled
Speed	20 knots on surface; 25 knots submerged
Complement	135 (14 officers, 121 men); two alternating crews

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FRANCE: The third French nuclear-powered ballistic missile submarine, *Le Foudroyant*, is to be launched on 4 December at Cherbourg.

Le Foudroyant is scheduled to become operational in 1974 and is to be the first of the 16-tube French nuclear submarines to carry missiles with thermonuclear warheads, each having a yield of about one megaton. By then the first two units, launched in 1967 and 1969, will have entered service carrying 500-kiloton warheads. The missiles on both of these submarines are to be retrofitted with thermonuclear warheads after 1974.

The first submarine, *Le Redoutable*, recently began its final extended-test cruise and is scheduled to start its initial operational patrol of 72 days at the end of this year. The second, *Le Terrible*, has completed initial sea trials and will begin operational patrols in late 1972.

The French already have begun construction of the fourth submarine, *L'Indomptable*, which will enter service in 1976. Defense Minister Debré confirmed France's intention to build a fifth submarine when he told the National Assembly earlier this month that construction material already had been ordered.

By the end of this decade, the French could have five submarines carrying a total of 80 missiles, each armed with a one-megaton thermonuclear warhead. At that time the missiles also are scheduled to have a greater range than the present 1,300 nautical miles. (SECRET NO FOREIGN DISSEM)

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ISRAEL: The country's balance-of-payments prospects remain uncertain despite a substantial increase in gold and foreign exchange reserves so far in 1971.

Israel's reserves rose from \$421 million at the end of 1970 to \$774 million at the end of last month, according to the central bank. In a request for US aid submitted last January, Israel had predicted that reserves would rise only to \$460 million by the end of 1971. A 23-percent increase in exports during the first ten months of the year, a significant increase in tourism, and the concentration of reserves in upward-floating West German marks have been partly responsible for Israel's reserve growth. An increase in capital inflows, highlighted by a sharp rise in sales of concessionary development bonds, also has contributed. Although its foreign debt is about \$1,000 per capita, Israel has demonstrated a willingness to add to reserves through further borrowing.

Domestic inflation, however, threatens to boost imports and slow the growth of exports. Defense-related imports may exceed \$800 million for the second consecutive year, and mounting debt service will be about \$500 million this year. (CONFIDENTIAL)

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NOTES

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LEBANON-FEDAYEEN: Lebanese Government officials are concerned about the growing fedayeen presence in southern Lebanon. Even though guerrilla operations against Israel have decreased, [REDACTED]

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[REDACTED] commandos in the area have increased to over 3,000 since late July. [REDACTED]

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[REDACTED] Salqa and Fatah plan to double their forces in the area beginning in early December, and this would probably create an even greater threat to Beirut. Security measures by the Lebanese and Israeli military are so stringent that the fedayeen have been able to do little more than launch delayed-action rocket attacks across the border, which generally are ineffective. The more radical fedayeen have turned their attention to meddling in internal Lebanese politics, and the governor of south Lebanon fears fedayeen interference in the National Assembly elections next April and May. (SECRET NO FOREIGN DISSEM)

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GATT: Representatives at the 27th annual meeting, which opens today in Geneva, will attempt to reach agreement on a work program to prepare the ground for negotiations on nontariff barriers and on the consequences of EC enlargement. They are not expected to commit themselves to a new round of major trade negotiations. The session will probably discuss the US import surcharge and consider if the growing EC preferential system weakens the "most favored nation" principle. On the closing two days of the session the delegates, supplemented in several cases by high-level national representatives, will assess the trends in international trade and consider proposals for the further development of the trade expansion program. The Chinese representation question could also arise since the Taiwan government is accredited as an observer. (CONFIDENTIAL NO FOREIGN DISSEM)

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